

Bandhan Bank Limited

A different approach to overall banking

Bandhan Financial Services had received in principle approval from RBI to set up a Bank and it began its banking operations in August 2015 with the name Bandhan Bank Ltd (Bandhan). The bank has grown remarkably in a very short span of time. It primarily focuses on serving underbanked and underpenetrated markets in India (East and North East India). As on Q3FY2018, the bank's advances stood at ₹22,932cr, deposits at ₹25,294cr (95% of the funding mix) and CASA ratio was at 33.22%.

No. 1 lender in the micro lending space: Bandhan, since its inception has been lending to underbanked and underpenetrated markets. This is a high yield business (NIM – 10.7% for 9MFY2018) and also enjoys the priority sector lending (PSL) benefits. As on 3QFY18, advances stood at ₹22,931cr, up 41.3% yoy. We expect that Bandhan would continue to grow at healthy rate and maintain higher NIM owing to management's focused approach toward targeted market.

Healthy return ratios: Bandhan has reported ROE/ROA of 26.8%/4.2% for 9MFY2018. Higher return ratios are largely driven by lower Cost to Income(C/I; 35.4%) and higher net interest margin. C/I has declined from 57% in FY2016 to 35.4% in 9MFY18, and we believe C/I would continue to decline further.

Strong asset quality, sufficient CAR to support growth: Robust credit assessment process and understanding of targeted market has aided in lower GNPA (1.67% 9MFY2018). As on 3QFY18, CAR was 24.85% and post IPO it would increase further. Given the strong internal capital generation ability, high CAR and IPO proceeds, Bandhan would not require equity dilution in the near term.

High valuations underpinned by high growth potential and profitability: At upper end of the IPO price band, Bandhan is valued at 8.3x 3QFY18 book value (pre-IPO) and on Post dilution basis at 5x of BV. Though valuations are on the higher side, we expect such premium valuations to persist given (a) healthy return ratio (25%+ RoE for FY17 and 9MFY18), (b) balance sheet strength (24.8% CAR ratio, CASA - 33.2%) and (c) experienced and focused management. **Considering the above positives, we recommend SUBSCRIBE on the issue.**

Key Financials

Y/E March (₹ cr)	FY16	FY17	9MFY18
NII	933	2,403	2,169
YoY Growth (%)		158%	
PAT	275	1,112	958
YoY Growth (%)		304%	
EPS	2	9	8
Book Value	30	41	45
P/E	149	37	-
P/BV	12	9	8
ROE (%)	14	29	27
ROA (%)	1.4	4.4	4.3

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: March 15, 2018
 Issue Close: March 19, 2018

Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹1095cr
Offer for Sale: **2.2cr Shares
Fresh issue: ₹3,662cr
Post Eq. Paid up Capital: ₹1,192cr
Issue size (amount): *₹4,413cr - **₹44,73 cr
Price Band: ₹370 - ₹375
Lot Size: 40 shares and in multiple thereafter
Post-issue implied mkt. cap: *₹44,134cr - **₹44,730cr
Promoters holding Pre-Issue: 89.62%
Promoters holding Post-Issue: 82.28%
*Calculated on lower price band
** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	82%
Others	18%

Jaikishan J Parmar

+022 39357600, Extn: 6810

Jaikishan.parmar@angelbroking.com

Company Background

Bandhan Bank Ltd began its journey in 2001 by forming a non government organisation (NGO) named Bandhan Konnagar to provide microfinance services to socially and economically disadvantaged women in rural West Bengal.

It started microfinance business in 2006 and the NGO transferred its microfinance business to BFSL in 2009, and thereby, the entire microfinance business was undertaken by BFSL. During Q1FY2015, IDFC and Bandhan Financial Services Private Ltd have been selected by the Reserve Bank of India to set up banks, from a field of 25 aspirants. Bandhan Bank Limited (“Bandhan”) is a commercial bank focused on serving underbanked and underpenetrated markets in India. Bandhan launched its general banking business on Q2FY2016 by opening a greenfield network of 501 bank branches and 50 automated teller machines (ATMs), which as on 3QFY2018 grew to 887 bank branches and 430 ATMs, together serving over 2.13 million general banking customers.

The bank majorly operates in Eastern and North Eastern parts of India with Assam and West Bengal contributing to major operations of the bank.

Exhibit 1: Asset Profile

Particular	FY17	%	9MFY18	%
Micro	213.9	90.9	215	88.3
Retail	3.9	1.7	7.2	3.0
SME Loans	7.1	3.0	9.1	3.7
Small Enterprise Loan	10.5	4.5	12.3	5.0
Total	235.4	100.0	243.6	100.0

Source: RHP

Exhibit 2: Break-up of branches, DSCs and advances in East and Northeast region

State/ Union Territory	Branches	DSCs	Total Advances
East India	54%	52%	58%
Northeast India	11%	17%	23%
East & Northeast India Total	65%	69%	81%

Source: RHP

Key Management Personnel:

Chandra Shekhar Ghosh is the MD and CEO of Bandhan Bank. He has significant years of experience in the field of microfinance and is awarded ‘Outstanding Leadership Award’ by the Dhaka University. He has been a director of the bank’s board since July 2015.

Sunil Samdani is the Chief Financial Officer of the bank. He has 21+ years of experience in the finance sector. Previously, he has worked at Development Credit Bank and at Karvy Financial Services Limited.

Biswajit Das serves as the Chief Risk Officer of Bandhan Bank. He has 23+ years of experience in the banking industry. He has worked at ICICI Bank prior to joining Bandhan.

Issue details

This IPO is a mix of OFS and issue of fresh shares. The issue would constitute fresh issue worth of ₹3,662cr and OFS worth of ₹8,10cr. OFS largely would offer partial exit to investors namely International Finance Corporation and IFC FIG Investment Company I.

Exhibit 3: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	98,14,83,046	90	98,14,83,046	82
Investor/Public	11,36,57,988	10	21,13,21,898	18
	1,09,51,41,034	100	1,19,28,04,944	100

Source: RHP Note: Calculated on upper price band

Objects of the offer

- To achieve benefits of listing equity shares on stock exchanges and to carry out the offer for sale. Listing of equity shares will enhance Bandhan Bank's brand name and provide liquidity to existing shareholders.
- To meet Reserve Bank of India's licensing guideline. According to the RBI's new bank licensing guidelines, the equity shares of Bandhan Bank are required to get listed on the stock exchanges within three years from the date of commencement of business i.e. on or before August 22, 2018.
- To augment the Bank's Tier-I capital base to meet the future capital requirements.

Outlook & Valuation

At upper end of the IPO price band, Bandhan is valued at 8.3x 3QFY18 book value (pre-IPO) and on Post dilution basis at 5x of BV. Though valuations are on the higher side, we expect such premium valuations to persist given (a) healthy return ratio (25%+ RoE for FY2017 and 9MFY2018), (b) balance sheet strength (24.8% CAR ratio, CASA - 33.2%) and (c) experienced and focused management. **Considering the above positives, we recommend SUBSCRIBE on the issue.**

Risks

Unsecured Portfolio

Bandhan Bank's operations involve transactions with relatively high risk borrowers (Unsecured Loan). Any default from the customers could adversely affect the business, results of operations and financial condition.

Limited historical track record and relatively very less experience in banking business

Bandhan Bank has reported healthy financials for FY2017 and 9MFY2018. But this is a very short period of record to evaluate the bank's business and its future risk.

Income Statement

Y/E March (₹ cr)	FY16	FY17	9MFY18
NII	933	2,403	2,169
- YoY Growth (%)		157.7	
Other Income	150	411	503
- YoY Growth (%)		174.5	
Operating Income	1,083	2,815	2,672
- YoY Growth (%)		160.0	
Operating Expenses	616	1,022	945
- YoY Growth (%)		65.9	
Pre - Provision Profit	467	1,793	1,726
- YoY Growth (%)		284.1	
Prov. & Cont.	53	88	265
- YoY Growth (%)		65.9	
Profit Before Tax	414	1,704	1,461
- YoY Growth (%)		312.2	
Prov. for Taxation	138	593	503
- as a % of PBT	33	35	34
Reported PAT	275	1,112	958
- YoY Growth (%)		304.0	

Balance Sheet

Y/E March (₹ cr)	FY16	FY17	9MFY18
Capital	1,095	1,095	1,095
Reserves & Surplus	2,239	3,351	4,309
ShareHolder Fund	3,335	4,446	5,404
Deposits	12,089	23,229	25,294
- YoY Growth		92	
Borrowings	3,052	1,029	1,331
- YoY Growth		(66)	
Other liab and prov	1,282	1,532	1,190
Total	19,757	30,236	33,219
Cash and Equivalent	3,173	7,365	2,392
Investments	3,758	5,516	7,291
Advances	12,438	16,839	22,931
- YoY Growth	-	35	
Fixed Assets	237	252	233
Other Assets	150	264	372
Total	19,757	30,236	33,219
- YoY Growth		53	

DuPont Analysis

Y/E March (₹ cr)	FY16	FY17	9MFY18
Interest Income	7.8	15.6	15.6
Interest Exp	3.2	6.0	5.8
Net Interest Income	4.6	9.6	9.8
Prov	0.3	0.4	1.2
Adj NII	4.3	9.3	8.6
Other Income	0.7	1.6	2.3
Total Income	5.1	10.9	10.8
Opex	3.0	4.1	4.3
Tax	0.7	2.4	2.3
ROA	1.4	4.4	4.3
Leverage	10.6	6.4	6.2
ROE	14.4	28.6	26.8

Key Ratio

Y/E March	FY16	FY17	9MFY18
Profitability ratios (%)			
NIMS	4.9	11.4	10.7
ROA	1.4	4.4	4.3
ROE	14.4	28.6	26.8
Cost to Income	57	36	35.4
B/S Ratio			
CASA Ratio	22	29	33
C/D	1.03	0.72	0.91
Asset Quality (%)			
Gross NPAs	0.2	0.5	1.7
Net NPAs	0.1	0.4	0.8
Credit Cost	0.3	0.4	0.9
CAR	29.0	26.4	24.9
Tier1	26.7	24.8	23.5
Tier - 2	2.3	1.6	1.3
Per Share - Pre IPO			
EPS	2.5	10.2	8.7
BVPS	30.4	40.6	45.3
Valuation Ratios			
PER (x)	149	37	-
P/BVPS (x)	12.3	9.2	8.3

Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information. n.